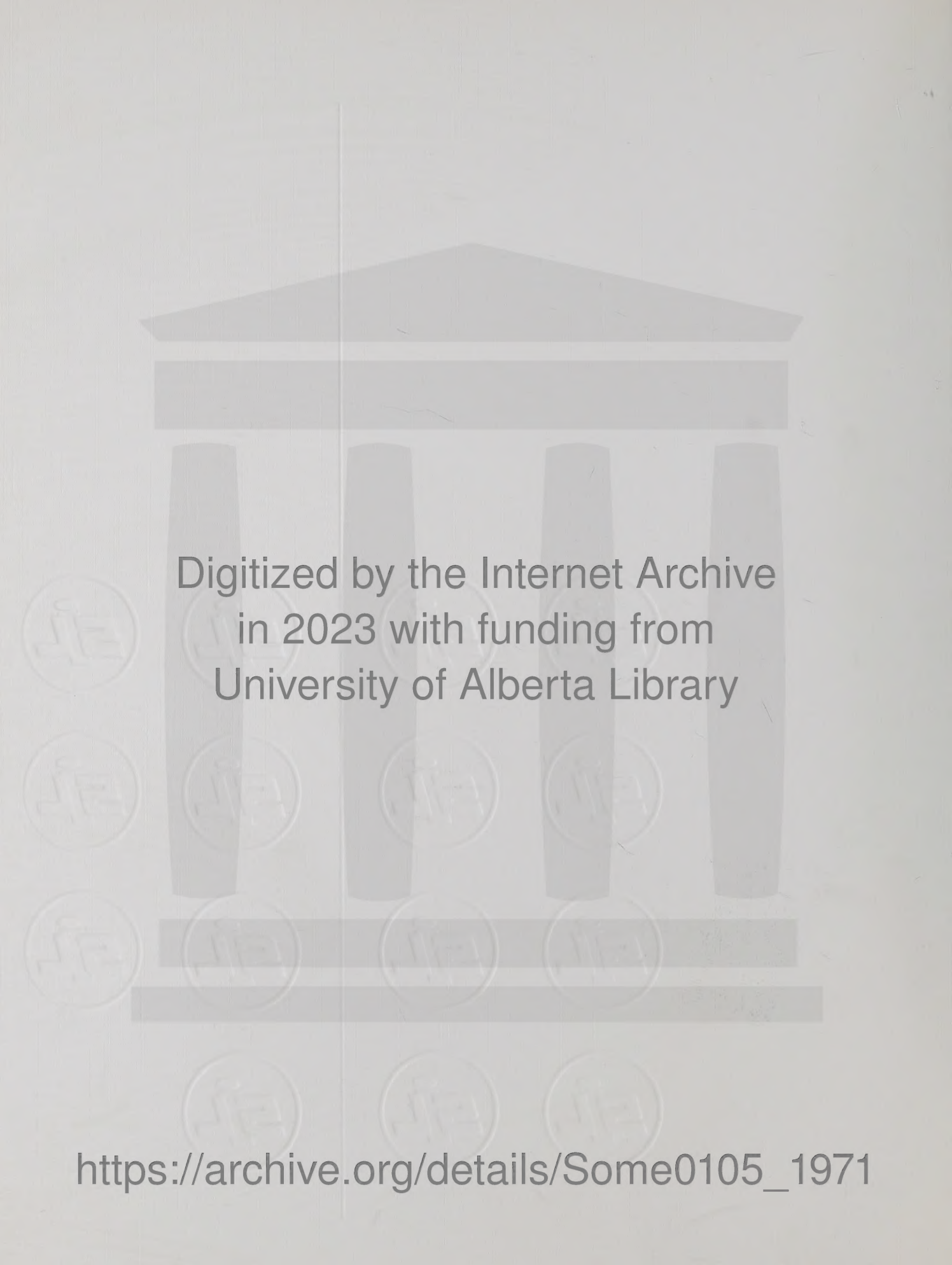


corp report

SOMERVILLE INDUSTRIES LIMITED 1971 ANNUAL REPORT





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Directors

J. G. Church
G. E. Creber
I. A. MacDonald
A. B. Van der Ende
W. Garfield Weston

Officers

J. G. Church	Chairman and President
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer

Management Committees

Head Office:

J. G. Church	Chairman
I. A. MacDonald	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

Packaging:

I. A. MacDonald	Chairman
G. J. Deignan	General Manager, Consolth Division
E. J. Dewhurst	General Manager, Canadian Folding Cartons Division
K. W. Keene	General Manager, London Division & Winnipeg

Special Products:

J. G. Church	Chairman
J. C. Bacon	General Manager, Automotive Products Division
R. W. Bastien	General Manager, Marketing Services Division
B. A. Cooper	General Manager, Plastics Division
B. L. Morin	General Manager, Games Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

TO THE SHAREHOLDERS:

Somerville Industries' sales and profits both showed improvement over the year previous, in spite of a generally slow economy during 1971.

Total Company sales were \$45,823,000 — an increase of \$1,830,000. Net income for the year, at \$1,811,000 — a gain of \$422,000 — represented a return to more satisfactory profit levels.

These results reflect continuing hard work in sales activity, cost control and productivity, during an economic period which demanded the fullest attention to efficiency in every aspect of operations. It is a pleasure to convey the thanks of the Officers and Directors to those employees — in every part of the Company — who worked together to cope successfully with a difficult year.

No major expansion or acquisition took place during the year, although a number of possibilities were carefully studied. Capital expenditures totalled \$760,000, and were made mainly on ancillary equipment designed to improve product output in several plants. The working capital at December 31, 1971 was reduced moderately to \$4,943,000, primarily as a result of the purchase for cancellation of sinking fund bonds and preferred shares. Inventories and receivables combined were held at much the same levels as the year previous.

The Somerville staff was saddened and shocked by the loss of Chairman and President, F. Clifford Lennox, who passed away on December 27, 1971, following a lengthy illness. Mr. Lennox joined the Company in 1936 as a junior estimator, progressing through various executive positions to the Presidency, which he assumed in 1957. Somerville showed steady growth through all the years of his administration. He will be greatly missed by his associates, and by his many business and personal friends.

A. B. Van der Ende has been elected to the Board of Directors. He has been a member of the Head Office staff since joining Somerville in 1957, and was appointed Secretary-Treasurer in 1966.

Forecasts for 1972 are optimistic. It will be necessary to face a perennial and basic problem, shared with Canadian industry in general; rising costs which are increasingly difficult to recover in the face of keen and active competition. The need to co-operate in overcoming it must be the concern of all employees.

Their support is fundamental to the achievement of employment stability, as well as to the maintenance of the Company's reputation for quality, reliability and expertise in its varied fields of activity. This support will be combined with careful forward planning and provision of the best facilities for service to our customers.

Concentration on the improvement of existing products, along with the addition of new lines, will continue. With all these factors in combination, future prospects will be excellent.

Chairman and President

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1971

(in thousands of dollars)

	1971	1970
NET SALES	\$45,823	\$43,993
Costs, excluding expenses shown below (note 9)	40,759	39,338
OPERATING INCOME, before undernoted items	5,064	4,655
Deduct:		
Depreciation	1,106	1,071
Interest on long term debt	87	128
Other interest	414	512
	1,607	1,711
Operating income before income taxes	3,457	2,944
Taxes on income	1,646	1,529
Income from operations before extraordinary item	1,811	1,415
Extraordinary item	—	26
NET INCOME FOR THE YEAR	\$ 1,811	\$ 1,389

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1971

(in thousands of dollars)

	1971	1970
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 8,792	\$ 8,459
Add:		
Net income for the year	1,811	1,389
	10,603	9,848
Deduct:		
Dividends — preferred shares	101	106
— common shares	1,040	950
	1,141	1,056
RETAINED EARNINGS AT END OF YEAR	\$ 9,462	\$ 8,792



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1971

(in thousands of dollars)

	1971	1970
CURRENT ASSETS		
Cash	\$ 8	\$ 8
Accounts receivable (note 1)	4,717	4,216
Inventories (note 2)	8,861	9,310
Prepaid expenses	287	261
	<u>13,873</u>	<u>13,795</u>
CURRENT LIABILITIES		
Bank Advances	816	1,408
Accounts payable and accrued liabilities (note 1)	2,042	1,790
Taxes payable	832	224
Dividends payable	25	26
Advances from parent company	5,000	5,000
Long term debt payable within one year	215	220
	<u>8,930</u>	<u>8,668</u>
WORKING CAPITAL	<u>4,943</u>	<u>5,127</u>
SINKING FUND RE PREFERRED SHARES —		
government and industrial bonds at market		
values (cost \$120,141, 1970 — \$125,000)	103	100
INVESTMENTS — Shares in 50% owned company —		
Mastico Industries Limited — at equity value	386	382
DEFERRED RECEIVABLES	—	7
FIXED ASSETS (note 3)	22,215	21,822
Less: Accumulated depreciation	11,465	10,649
	<u>10,750</u>	<u>11,173</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>16,182</u>	<u>16,789</u>
LONG TERM DEBT (note 4)	947	1,681
DEFERRED INCOME TAXES	1,561	1,897
	<u>2,508</u>	<u>3,578</u>
NET ASSETS (being Shareholders' equity)	<u>\$13,674</u>	<u>\$13,211</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	\$ 2,115	\$ 2,245
Retained earnings (note 6)	9,462	8,792
Excess of appraised value of fixed assets		
over cost, less sundry charges	2,097	2,174
TOTAL SHAREHOLDERS' EQUITY	<u>\$13,674</u>	<u>\$13,211</u>
On behalf of the Board:		
J. G. Church, Director		
I. A. MacDonald, Director		

NOTES TO CONSOLIDATED STATEMENTS

1. Accounts receivable and accounts payable:

Included in accounts receivable is an amount of \$408,538 (\$241,353 in 1970) owing from, and in accounts payable an amount of \$2,284 (\$23,275 in 1970) owing to affiliated and associated companies.

2. Inventories:

Inventories are valued at the lower of cost and net realizable value and consist of the following:

	1971	1970
Raw materials, goods in process and supplies	\$ 4,228,994	\$ 4,881,352
Finished goods	4,631,686	4,428,145
	<u>\$ 8,860,680</u>	<u>9,309,497</u>

3. Fixed assets:

Buildings and equipment are valued at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	1971	1970
Land and buildings	\$ 5,789,614	\$ 5,828,220
Machinery and equipment	16,426,029	15,993,829
	<u>\$22,215,643</u>	<u>\$21,822,049</u>

4. Long term debt:

	1971	1970
First mortgage bonds outstanding:		
Series A — 5¼% sinking fund, due October 15, 1973	\$ 449,124	\$ 666,963
Series B — 6% sinking fund, due June 15, 1977	713,000	1,234,000
	<u>1,162,124</u>	<u>1,900,963</u>
Less payable within one year	214,864	219,839
Total long term debt	<u>\$ 947,260</u>	<u>\$ 1,681,124</u>

Maturities and sinking fund requirements during the next five fiscal years are as follows: 1972 — \$215,000; 1973 — \$234,000; 1974 — Nil; 1975 — Nil; 1976 — \$113,000.

5. Capital stock:

	Number of shares	
	1971	1970
Preferred cumulative, redeemable shares, par value \$50 each, issuable in series.		
Authorized	100,000	100,000
Less purchased for cancellation	4,813	2,220
	<u>95,187</u>	<u>97,780</u>



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

5. Capital Stock (cont'd):

	Number of shares		Amount	
	<u>1971</u>	<u>1970</u>	<u>1971</u>	<u>1970</u>
Issued and outstanding —				
\$2.80 sinking fund cumulative preferred shares, 1953 series redeemable at \$51 per share	35,187	37,780	\$1,759,350	\$1,889,000
Common shares without par value				
Authorized	500,000	500,000		
Issued	356,300	356,300	356,300	356,300
			<u>\$2,115,650</u>	<u>\$2,245,300</u>

6. Retained earnings:

Retained earnings include an amount of \$140,150 set aside as capital surplus in connection with the redemption of preferred shares as required by Section 61 of the Canada Corporations Act.

7. Long term leases:

Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases, the aggregate rental amounts to \$2,064,551. The maximum annual rental payable thereunder for the years 1972 to 1976 is \$149,603.

8. Statutory information:

(a) Remuneration of directors and officers

	<u>1971</u>	<u>1970</u>
Number of directors	5	5
Aggregate remuneration as directors	Nil	Nil
Number of officers	4	4
Aggregate remuneration as officers	\$189,648	\$215,161
Number of officers who are directors	3	3

(b) Classes of business

In the opinion of the directors the classes of business contributing in excess of 10% of gross sales were as follows:

	Amount		Percentage	
	<u>1971</u>	<u>1970</u>	<u>1971</u>	<u>1970</u>
Packaging	\$32,938,522	\$31,875,904	71.9%	72.5%
Automotive products	7,797,072	7,011,080	17.0	15.9
Other	5,087,113	5,105,957	11.1	11.6
	<u>\$45,822,707</u>	<u>\$43,992,941</u>	<u>100.0%</u>	<u>100.0%</u>

9. Investment income:

Included as a deduction from "costs" on the Consolidated Statement of Income is \$121,554 in 1971 and \$43,914 in 1970 representing the company's 50% share of income from Mastico Industries Limited.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1971

(in thousands of dollars)

SOURCE OF FUNDS:	1971	1970
Net income for the year	\$ 1,811	\$ 1,389
Depreciation	1,106	1,071
Deferred income taxes	(336)	(49)
Sundry items (net)	—	6
	<u>2,581</u>	<u>2,417</u>
 APPLICATION OF FUNDS:		
Purchase of fixed assets (net of disposals)	760	672
Purchase of preferred shares for cancellation	130	—
Dividends to shareholders	1,141	1,056
Bond sinking fund instalments	734	336
	<u>2,765</u>	<u>2,064</u>
 Increase (decrease) in working capital	(184)	353
Working capital at beginning of year	5,127	4,774
WORKING CAPITAL AT END OF YEAR	<u>\$ 4,943</u>	<u>\$ 5,127</u>

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
January 18, 1972

CLARKSON, GORDON & CO.
Chartered Accountants

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consoloth Division**
865 Hodge Street, Montreal 379, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Automotive Products Division — Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Automotive Products Division — Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Division**
2744 Edna Street, Windsor, Ontario
- **Marketing Services Division**
11 Lesmill Road, Don Mills, Ontario
- **Games Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Hamilton: 477 Main Street East
- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)
- Truro: 545 Prince Street (P.O. Box 458)

Agents from coast to coast

